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**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Board of Directors
Delaware Transportation Authority
Delaware Transit Corporation
Dover, Delaware:

We have audited the financial statements of the Delaware Transit Corporation (DTC), which is a subsidiary of the Delaware Transportation Authority, a blended component unit of the State of Delaware, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 31, 2008, which noted that DTC implemented GASB 45. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered DTC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DTC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of DTC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2008-1 and 2008-2 to be a significant deficiencies in internal control over financial reporting.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that neither of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DTC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

DTC's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit DTC's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the State of Delaware Secretary of Transportation, management, Office of the Governor, Attorney General, Comptroller General, Office of Management and Budget, Department of Finance and the U.S. Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 31, 2008

Schedule of Findings and Responses

2008-1. Inventory

Observation

DTC maintains an inventory of parts and supplies, primarily to maintain its fleet of buses. It is not possible for DTC to stop all movement of inventory during the annual year-end inventory-taking process due to DTC's need to keep its maintenance facility open 24/7. As such, the year-end inventory cut-off becomes more complex. During our testing of the year-end inventory, we noted a number of discrepancies when comparing our counts to the recorded quantities. Additionally, we noted that DTC was not following the procedures set forth in Section D, *Inventory Control*, of the DTC Accounting Policies and Procedures Manual in that the issuance and receipt documents were not always completed in their entirety or processed timely.

Recommendation

We recommend that management require employees to follow the policies and procedures set forth in Section D, *Inventory Control*, of the DTC Accounting Policies and Procedures Manual.

Management's Response

DTC acknowledges that some count discrepancies occurred at year-end and that the inability to close the warehouse for three days is the cause of these discrepancies. The constant movement of inventory during the counting process creates an environment in which the chance for discrepancies exists.

DTC Management will continue to require employees to follow the policies and procedures set forth in Section D, *Inventory Control*, of the DTC Accounting Policies and Procedures Manual.

2008-2. Controls Over Fixed-Route Revenue

Observation

Section A, *Cash Receipts/Accounts Receivable/Revenue*, of the DTC Accounting Policies and Procedures Manual notes that it is the Revenue Control Accountant's responsibility to perform daily cash reconciliation between the bank statement and the GFI Daily Reports from each bus. At the end of each month, it is the Revenue Control Accountant's responsibility to review the month's variance to ensure it is less than the allowable difference of 1%. If the variance is greater than 1%, then the variance is required to be investigated. During the year, management identified a cash defalcation from the fixed-route farebox at the Monroe facility. Upon investigation, it was determined that the controls identified in Section A relating to fixed-route revenue were not being performed timely or in their entirety.

Recommendation

We recommend that management require employees to follow the policies and procedures set forth in Section A, *Cash Receipts/Accounts Receivable/Revenue*, of the DTC Accounting Policies and Procedures Manual.

Management's Response

DTC Management has implemented procedures that are supplemental to the policies and procedures outlined in Section A, *Cash Receipts / Accounts Receivable / Revenue* of the DTC Accounting Policies and Procedures Manual. DTC acquired additional staff to prepare deposits at the Monroe Street money room. This will ensure that the currency and coin deposits can be applied to the day that the revenue was earned. The Revenue Control Accountant is required to submit the daily variance report to the Accounting Supervisor. In addition, the Controller reviews the money rooms on a weekly basis. The review takes place on Tuesday for the previous week's reconciliations. The Controller also reviews the Month to Date variance and the Year to Date variance to ensure that they are within the 1% variance and also routinely re-runs the GFI reports to ensure that any audit

changes to the figures match the spreadsheet kept by the accountant. If there is a variance outside the 1% target, the Controller contacts the Data Analyst in Dover who will review the GFI data and determine if there are any duplicate or missing records. If variances above the 1% target remain, the Controller contacts the Chief Financial Officer office for further investigation. In addition to this procedure, the Chief Financial Officer has a designated staff member reviewing the information on a daily basis, and Wednesday of every week the previous week Monday to Friday is reviewed to ensure that the daily deposits are within the 1% target.